

EXECUTIVE SUMMARY
NATIONAL ASSOCIATION OF INDEPENDENT FEE APPRAISERS (NAIFA)
NATIONAL CONVENTION IN PHILADELPHIA, PA
AUGUST 27, 1998

HUD was invited to participate in a session at the National Association of Independent Fee Appraiser's National Convention. The sessions were held in Philadelphia, PA on August 27, 1998. Representing HUD were Ira Peppercorn, D.J. LaVoy and Len Nowak. There were three sessions at which HUD participated

- an introductory session with NAIFA leadership from 9:30 AM to 10:00 AM
- the morning roundtable and open microphone discussion from 10:00 to 12:00 AM
- a private luncheon with an ad hoc committee and NAIFA leadership from 1:15 to 3:30 PM

The roundtable was a continuation of dialogue with industry regarding the single-family appraisal reform. HUD's attendance at this conference fulfilled a promise to industry made at the July roundtable and brought input from the actual practitioners from across the country that will be directly affected by the reforms. Key messages solicited from the two audiences are summarized as follow:

- Education of appraisers to meet HUD's requirements
- Appreciation of HUD's efforts to work cooperatively with the appraisal industry
- Joint responsibility of the appraiser, mortgage broker and the lender for sub-standard appraisals and for monitoring performance and sanctioning behavior
- NAIFA offered to work with HUD to develop and provide appraisal training to meet HUD requirements
- Limitations on the inspection liability by the appraisers, but recognition that the appraisers have been required to perform the requested services prior to the proposed reforms

The various sessions resulted in goodwill between HUD and the appraisers. The industry participants provided thoughtful feedback and suggestions to HUD. Some of the suggestions will be incorporated, while others are still under consideration. Additional contact with HUD and NAIFA was agreed upon and another outreach was suggested.

ROUNDTABLE OVERVIEW
NATIONAL ASSOCIATION OF INDEPENDENT FEE APPRAISERS (NAIFA)
NATIONAL CONVENTION IN PHILADELPHIA, PA
AUGUST 27, 1998

HUD was invited to participate in sessions at the National Association of Independent Fee Appraiser's National Convention. The sessions were held in Philadelphia, PA on August 27, 1998. There were three sessions at which HUD participated: an introductory session with NAIFA leadership, the morning roundtable and open microphone discussion and a private luncheon with an ad hoc committee and NAIFA leadership following the roundtable.

The topic of the session was a continuation of dialogue with industry regarding the single-family appraisal reform. HUD's attendance at this conference fulfilled a promise to industry made at the July roundtable and brought input from the actual practitioners from across the country that will be directly affected by the reforms. Key messages solicited from the two audiences are summarized as follows:

- Education of appraisers to meet HUD's requirements
- Appreciation of HUD's efforts to work cooperatively with the appraisal industry
- Joint responsibility of the appraiser, mortgage broker and the lender for sub-standard appraisals and for monitoring performance and sanctioning behavior
- NAIFA offered to work with HUD to develop and provide appraisal training to meet HUD requirements
- Limitations on the inspection liability by the appraisers, but recognition that the appraisers have been required to perform the requested services prior to the proposed reforms

The first meeting consisted of nine NAIFA members and the three HUD representatives. The discussion provided a preview of the direction of the appraisal reforms, but also provided ideas from the NAIFA leadership about the residential appraisal practice. NAIFA participants indicated that there were three themes that were discerned from the general membership:

1. Hopefulness that HUD's initiative will be good for the appraisal profession in the long run;
2. Concerns about the rhetoric about accountability and liability; and
3. Overall support for clarity, competence and integrity into the appraisal process.

The group emphasized that it takes more than just the appraisers to cause problems with an appraisal: the lenders, mortgage brokers and real estate sales agents are also part of the problem. An overview of the HUD message was presented. The group proceeded to discuss terminology on the VC form, FHA safety and soundness review, state certification of home inspectors and training. The meeting adjourned with a request by NAIFA to reconsider and perhaps retract Lender Select. The first meeting adjourned and the group moved to the larger roundtable discussion.

The morning roundtable brought an audience of 125 appraisers. Ira Peppercorn, Len Nowak and Libby Kavoulakis formed the panel representing HUD. Each participant was provided the press release of June 1998 introducing appraisal reform, a discussion paper on the reforms and the proposed revised URAR form and VC forms. An opening statement and overview was provided by Ira Peppercorn, after which the audience was encouraged to ask questions or provide ideas to incorporate into the reforms. The overall tone was positive and constructive, and many ideas were brought forth. In addition, the national audience echoed the concerns and sentiments expressed at the roundtable held in Washington DC on July 8, 1998.

Following the roundtable, eleven NAIFA representatives and three HUD representatives attended the luncheon. NAIFA formed an ad hoc committee to address the proposed appraisal reforms. D. J. LaVoy commenced the conversation by setting forth the direction of the reforms. From there, open conversation from the group commenced, covering topics including sanctions, education, electronic submission and state certification of home inspectors. There are six states that currently certify home inspectors. The issue of appraiser fees, education and training was discussed. NAIFA repeated its offer to provide training through its established instructor network. Also, the implications of the proposed revisions to USPAP were discussed. The thought was that the elimination of the summary appraisal report would preclude the use of the URAR. Additional information on state certification and professional organization enforcement actions and the ability to monitor appraisers across several certifying bodies was detailed. HUD will step forth as the leader in developing a comprehensive cross-reporting model whereby the states and professional organizations will be informed of any wrong doing by FHA appraisers. The luncheon adjourned with both sides confident that progress has been made. NAIFA will continue to work with HUD in the reform efforts and HUD will continue to solicit industry feedback and partnership in the training efforts.

The day concluded with an understanding between HUD and NAIFA that both are working toward the same goal - - improvement of the quality of the appraisals and the education of the appraisal industry. The next roundtable was announced for Chicago on or about September 11, 1998.

PARTICIPANT QUESTIONS AND ANSWERS

Questions and Answers from the audience are summarized below. The geographic location of the appraiser asking the question is provided as an indication of the national scope of participants in the audience. The questions are grouped by category of the question.

Home Inspections

- Q: A concern was presented about the extent of the recommendation for a home inspection and the possibility to “tone down” the language or recommendation. The concern was expanded to include the participant’s thought that appraisers will recommend a home inspection regardless of the condition of the home, as risk mitigation. *(Cleveland, OH)*
- A: The concern was answered with procedural clarification. HUD has a form where the homebuyer acknowledges the right to an inspection. This form is supposed to be provided to the buyer beforehand, but buyers often do not see the form until the contract is signed. HUD is sending a message that appraisers are supposed to estimate value. There is an art and a judgement in the appraisal process and FHA wants appraisers to be as honest as possible.
- Q: Appraisers are not home inspectors. *(Texas)*
- A: The appraisers are not being asked to perform any service beyond what they were asked to perform in the past. The appraiser must inspect the property anyway.
- Q: Who pays the \$300 inspection fee if there is no closing on the property? *(West Virginia)*
- A: It is a negotiated item between buyer and seller.
- Q: Why would an appraiser not always recommend an inspection? *(Detroit, MI)*
- A: The appraiser must take into account the condition of the property into the recommendation. The recommendation must be based on facts.

URAR and VC Forms

- Q: Has HUD considered having lenders sign the Uniform Residential Appraisal Report (URAR)? *(New Orleans)*
- A: Although that seems like a good idea on the surface, the lenders’ influence on the process would become greater. All signors of the appraisal report are held fully accountable for all information presented in the report. However, the lender would then have a direct voice in the value since the signature implies significant professional assistance in the preparation of the appraisal.
- Q: How would an appraiser obtain the information on the mechanical systems for the comparable sale properties? Also, the VC form only addresses shingle roof surfaces, but there are also flat roof requirements that need to be added back into the form. *(Philadelphia, PA)*
- A: Neither the URAR nor the VC form has been finalized yet. This is the type of input that HUD is seeking.

- Q: How would an appraiser make adjustments to the sales? (*New Jersey*)
A: Based on market support for the adjustment. There would be no adjustment if the item was not value influencing.
- Q: How will findings from the VC form be reported to borrowers? (*Salinas, CA*)
A: The lender will have to inform the borrower.
- Q: On page 1 of the VC form, is it possible to remove the word “primarily”? A recommendation was made that the form should be amended to say that the borrower should contact only the lender to obtain and explain the findings. (*St. Petersburg, FL*)
A: The comment will be considered.
- Q: Full access to the property is required for VC-2. (*Kentucky*)
A: The participant was thanked for the comment.

Lender Select

- Q: The appraiser works in urban areas and when the fee panel disappeared, the barometer of the appraiser’s performance was if the appraiser received any more work. Because of predatory lending practices, is there a way that HUD could protect the appraiser? (*Washington DC*)
A: It was agreed that the appraisers are “low down in the process”, but it was emphasized that the appraisers are the ones that protect FHA’s investment. HUD recognizes the importance of the appraiser and realizes that they feel direct and indirect pressure from other stakeholders.

In looking at the Direct Endorsement (DE) program, HUD performs a cursory review that is predominately clerical, then looks at the appraisal after the loan is made. Even if the appraiser notes a condition, the lender may waive the condition in the DE program.

- Note: A proposal was made by Matt Schneider that no appraiser should ever be prosecuted without investigating the other participants in the process, namely the mortgage broker, sales person and lender.
- Q: How are loans reported to FHA? Is there a possibility that data will be captured where loans are not made? This would allow HUD to test “rejects” and obtain additional performance data.
A: The process resides with Direct Endorsement and the way FHA insures loans. FHA obtains the case binder from the lender. The review of the binder is almost entirely a paperwork review where the check for all of the proper forms, completion of the forms and signatures are checked. If this is the case, the FHA insurance will be approved. The theory is that lenders will do the underwriting and in the post-technical review the file will be reviewed in detail. This review occurs for approximately ten percent of the loans currently. The reviews are only challenged when there is fraud. HUD acknowledged that there is not a complete

review on the front end and the back end review does not have the scope to capture "bad appraisals". The theme is that there is a perception that "an entitlement" to remain on the approved list exists. HUD is starting at the back end through Credit Watch, with questions such as which lenders have high rates of claims and defaults. The test is that if a lender has defaults twice the area average and above the national average may be removed. Removal from the approved list is currently on a one-off/ retail basis where HUD never gets the big picture view. Through the proposed process, HUD will be able to remove poor performers, issue Letters of Disciplinary Procedures and remove lenders. Currently, the process to remove lenders is so difficult that it is never done.

Q: The appraisal reforms are a politically charged issue, where the control is where the money is. When a lender is taken out of the process of appraising, the quality improves. (*Tacoma, WA*)

A: FHA knows that there must be a way for more independence and a way to obtain the best, most reliable value.

Q: Is it possible to add the lender to the Rider to Certification and require the lender to sign it? Also, is it possible to create an additional form where any loans with a loan-to-value ratio of 95 percent would require an inspection. (*Rockland Co., NY*)

A: The loan-to-value ratio is high for FHA borrowers anyway, so the requirement would virtually mandate home inspections. HUD is sending the message as strongly as possible that the buyer should obtain a home inspection and will continue to educate and influence buyers to get inspections.

Liability and Sanctions

Q: A dilemma was shared where an appraiser rejected a mobile home property based on a construction date of 1970, only to find the mobile home was listed as sold with FHA financing on the MLS and said to have a 1977 construction date. What should the appraiser do to report such a situation where there is such obvious manipulation of the facts? The appraiser was caught in the middle and made to look foolish. (*Kansas*)

A: The appraiser was requested to call Ron Bailey at the Denver HOC and inform him of the problem. In addition, Phil Murray, the Quality Assurance division head in Washington DC should be contacted and informed about this situation.

Q: New York state did an informal survey of member states and found that it was not the lender, but the mortgage brokers that work with the lenders that are the cause of appraisers' problems. A point was made that HUD could alleviate the problems with the lenders if the lender was required to hire the appraiser directly.

Also, the New York State Appraiser Board has had complaints about FHA field reviewers who have uncovered fraud during the review process. All parties were afraid to file a complaint. The participant would like a mechanism in place for HUD to refer to the state certification boards for enforcement because everyone along the chain is afraid to file a complaint. (*Long Island, New York*)

A: The mechanisms in place do not always work. The participant was requested to send the information directly to Ira Peppercorn. Also, HUD should not just

- report to the state agencies, but there needs to be mutual reporting for enforcement.
- Q: In doing reviews for FHA, there have been hundreds of bad and fraudulent appraisals uncovered, but nothing was ever done by HUD. Mortgage brokers are the problem and the brokers will just change lenders once a problem is surfaced. The question about why any in-house appraisers are still allowed in the lending industry? *(Detroit, MI)*
- A: Reviews and complaints do not work. The question was referred to D.J. LaVoy, who was reported to be building a system in REAC that will be automated and national. This should provide the coverage and linkage to the parties that change relationships.
- Q: Is HUD aware that the appraisers are the only ones who are operating on a salary basis and have the least incentive to corrupt the values? *(Unknown)*
- A: HUD is looking at the whole process, so the other parties will be encompassed into the scope of reforms.

Miscellaneous

- Q: How will new appraisal information be disseminated to the appraisers? *(Hutchinson, KS)*
- A: Through the HUD web site at **Error! Bookmark not defined.** or through traditional means of obtaining government documents.

Other HUD Contracts

- Q: How should appraisers find the information about which management company is being awarded the management and maintenance contracts? Through this contract, there is appraisal business that the participant wanted to pursue. *(Tacoma, WA)*
- A: There will be two meetings about these contracts, first in California, then in Washington DC. FHA is working with the Small Business Administration (SBA) on a carve-out. Even if a large company wins the award, there are other areas that are specifically carved out for small businesses. It was recommended that the appraiser contact HUD for the specific date and time of the upcoming meetings.
- Q: Will the list of winners for the maintenance and management contracts be made available to the public? *(Tacoma, WA)*
- A: Yes
- Q: There are multiple contracts for REO foreclosures. Ninety-five percent of foreclosure appraisals performed by this participant have been in the last four years. This coincides with the implementation of Lender Select. *(NE Ohio)*

- A: HUD is looking at every step in the process, including foreclosures, loss mitigation tools and appraisal selection. Congress legislated Lender Select, and would therefore be responsible to change Lender Select.

ROSTER OF KEY PARTICIPANTS

NAIFA Leadership Meeting (9:30 AM to 10:00 AM) and Luncheon (1:20 PM to 3:30 PM)

NAIFA

Edwin Mac Nicoll, Chairman of the Ad Hoc Committee and NAIFA President Elect

Matt Schneider, Attorney and Lobbyist for NAIFA

Jack Story, NAIFA National President

Jack Rose, Past President, Director of NAIFA and member of Ad Hoc Committee

Richard Allgood, Member of Ad Hoc Committee

Janet Tasker, Member of NAIFA

Dottie Pennebaker, Member of NAIFA

Dominick Pompeo, Director of NAIFA and Member of Ad Hoc Committee

Robert Sneed, Executive Vice President

HUD

Ira Peppercorn, FHA

D. J. LaVoy, REAC

Len Nowak, REAC (GTR)

Libby Kavoulakis, Arthur Andersen